SECTION 3: BUSINESS INTEGRATION PLAN – UPDATE

A) Cutover Approach

1. Discussion of Cutover Alternatives

In the September Transition Plan Report, Unitil presented a description of the Go-Live planning that had been developed by the Functional Integration Teams ("FITs") as of that date. The Go-Live component of the BIP for Unitil's acquisition of Northern and Granite presents the steps necessary for the cutover of business processes, functions, data and systems from NiSource and Bay State to Unitil. Unitil also presented a selected list of important Go-Live activities for many of the teams and attached a complete copy of the Customer Service Go-Live plan. The September Transition Plan Report included the identification of transition services that will be required for many of the FITs based on the anticipated phased-in cutover of major business functions. Finally, the September Transition Plan Report included three appendices that are also included in this report for convenience: Appendix A (TSA), Appendix B (Draft TSA Annexes describing the services to be provided, and Appendix C (a detailed list of transition services).

When the September Transition Plan Report was prepared, many of the Go-Live plans called for Unitil to assume responsibility when the transaction closed for several corporate and financial functions which are supported by Unitil systems that are being enhanced to accommodate Northern and Granite transactions. The development and testing of systems relied upon to produce public and management financial reports, and to provide back office services to many gas company functions, is currently the primary focus of the integration effort. These systems include general ledger accounting, construction accounting, plant accounting, payroll, accounts payable and cash. Most of these systems are in the final stages of completion and have begun to be tested. As discussed in Section 3.A.2, Unitil will test and validate all financial systems before the systems are cutover and

implemented in production. The final development and testing of the financial systems is the primary focus of the integration effort at this time.

There are two functions that are anticipated to cutover in the months after the closing: 1) customer service (currently scheduled for the first quarter of 2009) and, 2) the dispatching function (currently scheduled for the second quarter of 2009). As discussed previously, these functions will not cutover until personnel have been trained and the systems that support these functions have been tested and implemented.

Over the past few weeks, Unitil, after discussions with NiSource, has determined that it would be preferable to close the transaction at a month-end and also cutover the financial and operational systems at the same time. From Unitil's and NiSource's perspective, a month-end transaction close date and cutover has several advantages including a more efficient cutover of customer and business support functions as well as a clear demarcation for employee payroll and benefits administration. Another significant advantage of the month-end cutover is the transition of financial reporting and cash management responsibilities - NiSource "closes the books" as of month-end and Unitil assumes financial reporting responsibilities as of the beginning of the month. As a result, a month-end close and cutover is preferable to a mid-month close and cutover if it can be accommodated by the state regulatory approval timeline. A draft of the Weekly / Daily Milestones schedule is attached at Appendix E.

As noted in the executive summary, the transaction closing date depends on the timing of state regulatory approvals by the Maine, New Hampshire and Massachusetts regulatory commissions, including the respective time periods for appeals. Unitil's current expectation is that all approvals and subsequent appeal period expirations will occur in mid-November and the transaction will close at the end of November. If the regulatory approval process extends beyond November 30, Unitil and NiSource will establish a revised transaction close and cutover date based on the facts and circumstances.

2. Testing Plans

As noted in the September Transition Plan Report, functional cutovers for the FITs will not begin until all processes, data, and systems have been thoroughly tested by the functional integration teams. In addition, functional cutovers will not occur until agreement is reached between Unitil and NiSource and Bay State indicating specifically when NiSource will stop performing a particular function or process because Unitil is prepared to assume these responsibilities. The execution of Go-Live cutover procedures shall only occur after these processes and systems have been successfully tested. Unitil's Internal Audit group will attest to the validity, accuracy and completeness of the integration test procedures and Unitil's external auditors will perform selected tests of the procedures as well.

The test plans prepared by the FIT leaders are designed to test the relevant functionality for the systems that have been modified as well as all functionality for newly developed systems. In addition, systems that will be the recipient of historical information will also be tested to: 1) verify that the historical information can be imported and, 2) validate or reconcile the historical information imported.

Unitil's testing approach is applicable to both financial and operational systems. The test steps performed are based on the purpose and function of each system. Unitil's financial and financial-related systems (such as general ledger accounting, construction accounting, plant accounting, payroll, accounts payable and cash), which provide information necessary to prepare Unitil's financial reports for various regulatory agencies and noteholders, are subject to a testing approach that ensures amounts reported in the financial statements are complete and accurate. Unitil's operational systems are tested to ensure that the system's functionality has been validated and that the system's performance and reporting meets Unitil's expectations and requirements. Unitil will provide an update on the status of the testing efforts in the November Transition Plan Report.